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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

MAR 31 2005

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IN THE MATTER OF THE APPLICATION
OF UNS GAS, INC. FOR APPROVAL OF
ADJUSTMENT TO PURCHASED GAS
ADJUSTOR SURCHARGE

DOCKET NO. G-04204A-05-0046

DECISION NO. 67730ORDER

Open Meeting
March 24, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission").

2. On January 25, 2005, UNS filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.

3. UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach an over or under collection in the amount of \$4,450,000 the Company must file an application for an adjustment within forty-five days of completing the monthly informational filing that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate adjustment is not necessary at the time. The \$4,450,000 referenced above has not changed since 1999. This number may need to be adjusted upward in order to account for the volatility of the gas market and customer growth. Therefore, we shall order Staff and the Company to come up with a

1 new threshold amount for the bank balance. This recommendation shall be submitted to the
2 Commission by December 31, 2005.

3 4. UNS' PGA rates are calculated using a 12 month rolling average. The rolling
4 average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10
5 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been
6 constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval
7 of a surcharge in order to recover the undercollected balance that has developed.

8 5. In the recent past, UNS has had a surcharge. UNS' most recent surcharge was
9 \$0.1155 authorized by Decision No. 66341 (September 30, 2003). That surcharge ended October
10 of 2004. The surcharge included a "circuit breaker" and also included a "surcharge holiday" set
11 previously in Decision No. 65384 (November 13, 2002). Decision No. 66861 (March 23, 2004)
12 later adjusted the circuit-breaker mechanism. The surcharge holiday and circuit-breaker
13 mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such
14 provisions in this application.

15 6. UNS' November PGA filing, dated January 21, 2005, demonstrated that
16 November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in
17 undercollection. While UNS has not yet formally submitted its January PGA bank balance report
18 to the Commission, the Company has indicated to Staff that a preliminary calculation of December
19 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

20 7. UNS does not anticipate that its current undercollected balance will be recovered in
21 the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA
22 bank balance to zero in the spring of 2006.

23 8. Residential customers of UNS used a monthly average 23 therms in the summer of
24 2004, April to September. Residential customers are projected to use a monthly average of 75
25 therms in the winter of 2004-2005, October to March, based on consumption to date this winter
26 and projections for the remaining months. The following tables demonstrate the effect on selected
27 residential customers of implementation of a \$0.05 per therm surcharge (rather than UNS'
28

proposed \$0.06 surcharge) in both summer and winter, assuming residential average usage occurs as is projected:

Table I

**Impact on Residential Bills
Summer/ April - September**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
17	74%	\$ 23.18	\$ 24.03	3.67%
23 (average)	100%	\$ 28.50	\$ 29.62	3.96%
29	126%	\$34.60	\$36.05	4.19%
35	152%	\$40.31	\$42.06	4.34%

Table II

**Impact on Residential Bills
Winter/ October - March**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
56	75%	\$ 60.04	\$ 62.84	4.66%
75 (average)	100%	\$ 77.66	\$ 81.39	4.80%
94	125%	\$96.04	\$100.74	4.89%
112	149%	\$113.09	\$118.69	4.95%

9. UNS has hedged the price for approximately 60 percent of its current working gas and has hedged approximately 20 percent of its gas for next winter. UNS has explained to Staff its intention to increase the proportion of next winter's hedged gas to approximately 60 percent as the 2005-2006 winter season approaches. As next winter approaches, the portion of UNS' gas supply portfolio which is not hedged will be subject to the market forces that prevail at the time. While customer therm use can be anticipated to a certain degree, weather and market prices that will occur next winter cannot be predicted with certainty.

10. On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to

1 contact UNS to comment on the matter. The notice also provides a toll-free number for the
2 Commission which connects with the Consumer Services Section of the Commission should
3 customers want to leave their comments with the Commission. Staff reviewed the insert and found
4 it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the
5 UNS billing cycles, the bill inserts should reach customers two weeks or more before March 24,
6 2005 depending on their individual billing cycle.

7 11. Staff's analysis of the PGA balance for the next twelve months, based on current
8 gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by
9 spring of 2006 without a PGA surcharge of at least \$0.05. Staff has reviewed projections for
10 future cost, consumption, and other estimations used in determining an appropriate surcharge and
11 finds them reasonable for purposes of setting the surcharge.

12 12. Staff recommends implementation of a \$0.05 surcharge as it is projected to
13 eliminate the undercollected balance by May of 2006. Staff recommends a \$0.05 surcharge as it
14 balances UNS' interest in reducing its undercollected balance with the customer's interest in price
15 stability. However, based on the pricing concerns of consumers, it is in the public interest to
16 approve a \$0.03 surcharge.

17 13. Staff also recommends that the surcharge be implemented in April of 2005 and be
18 in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to
19 zero, whichever comes first.

20 CONCLUSIONS OF LAW

21 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of
22 Article XV, Section 2 of the Arizona Constitution.

23 2. The Commission has jurisdiction over UNS Gas, Inc. and the subject matter of the
24 application.

25 3. The Commission, having reviewed the application and Staff's Memorandum dated
26 March 3, 2005, concludes that it is in the public interest to approve the filing to apply a \$0.03
27 surcharge to the rates of UNS, Gas, Inc.
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ORDER

IT IS THEREFORE ORDERED that a \$0.03 per therm surcharge is approved for UNS Gas, Inc., effective April 1, 2005.

IT IS FURTHER ORDERED that the surcharge end at such time as the bank balance is reduced to zero, or by order of the Commission. Staff shall monitor the bank balance and surcharge to recommend whether any changes are necessary.

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1 IT IS FURTHER ORDERED that Staff and the Company shall come up with a new
2 threshold amount for the bank balance. This recommendation shall be submitted to the
3 Commission by December 31, 2005.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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9 CHAIRMAN

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12 COMMISSIONER

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21 COMMISSIONER

22 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
23 Secretary of the Arizona Corporation Commission, have
24 hereunto, set my hand and caused the official seal of this
25 Commission to be affixed at the Capitol, in the City of
26 Phoenix, this 31st day of March, 2005.

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BRIAN C. McNEIL
Executive Secretary

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DISSENT: Lawrence J. Sloan

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